

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. CE3050006

TO: Enforcement Department
NASD

FROM: Citigroup Global Markets, Inc., BD No. 7059

Pursuant to Rule 9216 of NASD Code of Procedure, Respondent Citigroup Global Markets, Inc. ("CGMI" or "Respondent") submits this Letter of Acceptance, Waiver, and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against Respondent alleging violations based on the same factual finding.

Respondent understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Enforcement Department and National Adjudicatory Council ("NAC"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
3. If accepted:
 - a. this AWC will become part of Respondent's permanent disciplinary records and may be considered in any future actions brought by NASD or any other regulator against Respondent;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondent's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects

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Respondent's testimonial obligations or right to take legal positions in litigation in which NASD is not a party.

Respondent also understands that its experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

A. Citigroup Global Markets, Inc.

Citigroup Global Markets, Inc. ("CGMI") (BD#7059), formerly known as Salomon Smith Barney, Inc. ("Smith Barney"), has been an NASD member since October 16, 1995. CGMI offers securities, trading, brokerage and related products and services. The firm is headquartered in New York, NY, has 837 active branch offices and approximately 23,017 registered personnel.

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WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against it;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondent further specifically and voluntarily waives any right to claim that a person violated ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

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II.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the allegations, and solely for the purposes of this proceeding and any other proceeding brought by or behalf of NASD, or to which NASD is a party, to the entry of the following finding by NASD:

Summary

Between June and August 2003, CGMI ran a national advertising campaign regarding certain Smith Barney Mutual Funds. As part of this advertising campaign, CGMI ran four print advertisements (attached as Exhibit A) in The Wall Street Journal. These advertisements also were included in advertising slicks enclosed with customer account statements. These four advertisements emphasized the more recent favorable performance and de-emphasized the negative one-year performance of the funds in a manner that was unbalanced. As a result, each advertisement violated NASD Conduct Rules 2210(d)(1) and 2110.

In addition, in May 2002, the firm used 18 items of advertising and sales literature concerning registered investment companies that it failed to file with NASD's Advertising Regulation Department, in violation of NASD Conduct Rules 2210(c) and 2110.

The Advertisements for the Smith Barney Mutual Funds

In the spring of 2003, CGMI created similar advertisements for four of its Smith Barney Mutual Funds: Smith Barney Large Capitalization Fund, Smith Barney Aggressive Growth Fund, SB Capital and Income Fund, and the Smith Barney Appreciation Fund. Each of the advertisements consisted of prominent photographs of the fund's portfolio managers with large prominent headlines that emphasized the fund's recent performance. The fund's "recent performance" was further emphasized by the font that was used for these two words—the largest and boldest font that appeared in the advertisement. The four headings were:

- ALAN'S RECENT PERFORMANCE MAY SURPRISE YOU. IT DOESN'T SURPRISE US.¹
- OPENED YOUR STATEMENT LATELY? RICHIE'S RECENT PERFORMANCE MAY ENCOURAGE YOU.²
- WE THINK YOU'LL LIKE OUR RECENT PERFORMANCE. IN FACT, WE'RE POSITIVE.³
- THINK POSITIVE...IT'S NOT HARD WHEN YOU LOOK AT HERSH AND SCOTT'S RECENT PERFORMANCE.⁴

¹ Smith Barney Large Capitalization Fund

² Smith Barney Aggressive Growth Fund

³ SB Capital and Income Fund

⁴ Smith Barney Appreciation Fund

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In the main body of each of the advertisements, just below the headlines, the fund's average annual total returns (the "returns"), not including the effects of sales charges, for Class A shares were presented in bold print, in a 10-year, 5-year, 1-year, left to right format, above the industry average for similar types of funds.⁵ The 1-year performance for each of the four funds was negative.

Listed in smaller print in the footnotes below the main portion of the advertisements were required disclosures regarding the fund's returns, including the effects of maximum (5%) sales charges, for the 1-, 5-, and 10-year periods.⁶ This data was presented in a 1-year, 5-year, 10-year format. By using two opposite presentations of the order of the fund's returns in the main body and in the footnote, the advertisements made it more difficult for readers to determine which data was long-term and which data was short-term.

In addition, in the upper right hand portion of the advertisements, the fund's year-to-date return was presented in a bar graph set above a bar graph that measured the same year-to-date information for the industry average for similar types of funds with the numerical year-to-date returns stated next to each bar graph. Although the numerical year-to-date returns were accurate and the fund year-to-date returns were in all cases in excess of the year-to-date industry average, the bar graphs were not drawn proportionally or to scale. As a result, each of the bar graphs disproportionately favored the performance of the Smith Barney fund.

When viewed in its entirety, the advertisements emphasized the more recent favorable performance and de-emphasized the negative one-year performance of the funds in a manner that was unbalanced. Further, the advertisements failed to present return data required by SEC Rule 482 with equal prominence to the other return data. As a result, each of the four advertisements violated NASD Conduct Rules 2210(d) and (e) and 2110.

All of these advertisements were widely circulated. Each advertisement was run in The Wall Street Journal on a single day on or shortly after June 10, 2003. The ad for the Smith Barney Large Capitalization Fund also was run in the Wall Street Journal (Eastern Edition) on June 12, 2003. In excess of 6,000 advertising slicks of each piece were printed for use by the firm's registered representatives and one of them was distributed as a statement stuffer to over one million customers.

Failure to File Advertisements and Sales Literature

NASD Conduct Rule 2210(c) requires that, within 10 business days of first use or publication, member firms must file with NASD's Advertising Regulation Department all advertisements and sales literature concerning registered investment companies, including mutual funds, variable contracts, continuously offered closed-end funds, and unit investment

⁵ With respect to the Smith Barney Large Capitalization Fund advertisement, the performance was depicted in since inception, 5-year, 1-year order.

⁶ SEC Rule 482 requires that any presentation of non-money market mutual fund performance include disclosure of returns net of sales charges computed in accordance with a specified formula. Such returns must be equally prominent to any other performance data in the advertisement.

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trusts. During May 2002, CGMI used 18 items of advertising and sales literature concerning registered investment companies, including client prospecting letters, seminar and conference call invitations, and generic advertisements, that it failed to file with NASD's Advertising Regulation Department. This failure to file these items constituted violations of NASD Conduct Rules 2210(e) and 2110.

B. Respondent also consents to the imposition, at a maximum, of the following sanctions:

1. A censure;
2. A fine in the amount of \$50,000.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

OTHER MATTERS

- A. Respondent understands that it may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.
- B. Respondent agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable and has attached an Election of Payment form showing the method which it proposes to pay any fine imposed.
- C. Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Respondent certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce it to submit it.

Date

3/18/05

Respondent Citigroup Global Markets, Inc.

By: Michael J. Sharp
Managing Director
General Counsel (Smith Barney)

03/18/2005 17:27 FAX 212 816 8660

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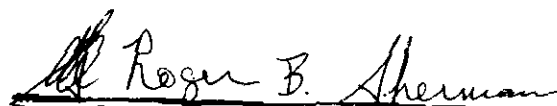
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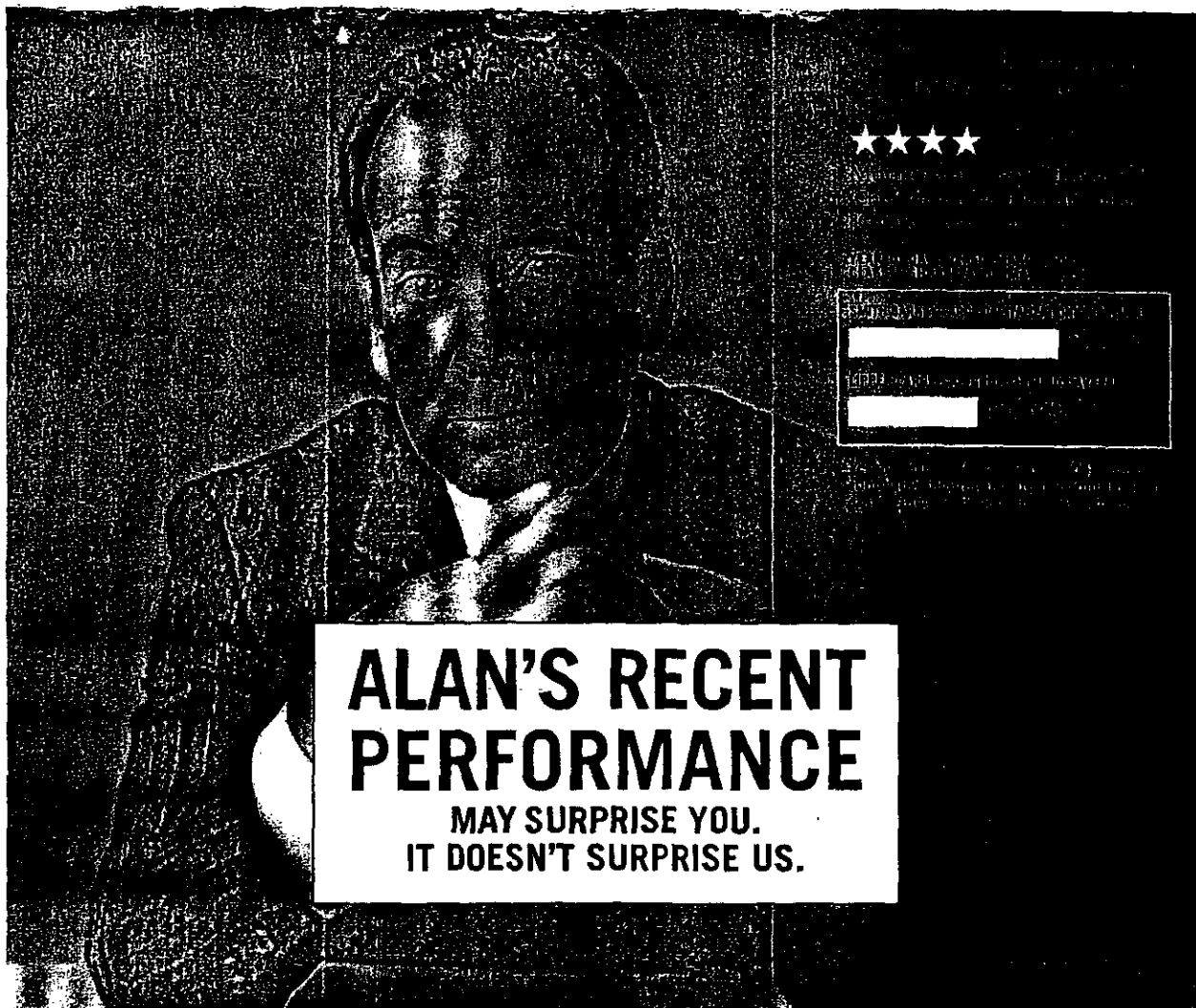
Reviewed by:


Counsel for Respondent

Accepted by NASD:

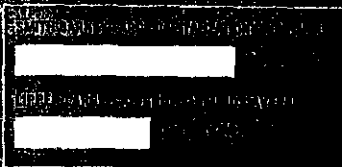
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Date


Roger Sherman
Senior Vice President
Enforcement Department
on behalf of the Director of CIDA,
pursuant to delegated legal authority



Investment Company of America
 100 North 17th Street
 Baltimore, MD 21202

ALAN BLAKE, Investment Advisor
 Investment Company of America



For more information, please contact your financial professional or call 1-800-451-2010.

ALAN'S RECENT PERFORMANCE MAY SURPRISE YOU. IT DOESN'T SURPRISE US.

	SINCE INCEPTION*	5-YEAR	1-YEAR
Smith Barney Large Capitalization Growth Fund	4.71%	1.15%	-23.94%
Lipper Large-Cap Growth Funds Average	-2.5%	-6.17%	-27.05%

*August 29, 1997. Average annual total returns, not including the effects of sales charges, for Class A shares as of March 31, 2003.

To learn more about the Smith Barney Large Capitalization Growth Fund and Alan Blake's investment philosophy, contact your financial professional, call us at 1-800-451-2010 or visit www.smithbarneymutualfunds.com for a free prospectus. The prospectus contains more complete information, including risks, fees and expenses. Please read it carefully before you invest or send money.

MUTUAL FUNDS ARE LONG-TERM INVESTMENTS. THEREFORE, INVESTORS SHOULD CONSIDER THE COMPLETE PERFORMANCE HISTORY OF THE FUND WHEN MAKING AN INVESTMENT DECISION. PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

CALL YOUR FINANCIAL PROFESSIONAL OR 1-800-451-2010 OR VISIT WWW.SMITHBARNEYMUTUALFUNDS.COM

Principal value and investment returns will fluctuate, and investment shares, when redeemed, may be worth more or less than the original cost. Because of market volatility, returns may be higher or lower than current returns. Common stocks are subject to market fluctuation. Average annual total return assumes the reinvestment of income dividends and capital gains distributions at net asset value and the deduction of all fund expenses. All average annual returns above are as of March 31, 2003. Class A shares, including the effects of maximum (5.09%) sales charges, returned (27.73%), 0.12% and 3.75% for the one-, five- and since-inception (8/29/97) periods, respectively. Performance for Class B and L shares will differ due to differences in sales charge structure and class expenses. Year-to-date (YTD) returns are cumulative figures and are not annualized and do not include the effects of sales charges. YTD return for the Fund's Class A shares, including the effects of maximum (5.09%) sales charges is 15.40%. Performance for other share classes will vary. YTD returns are calculated from January of the reporting year. Average annual returns are calculated among 684, 647, 317 and 276 large-cap growth funds tracked by Lipper over the YTD, one-year, five-year, and since-inception (8/29/97) periods, respectively, with reinvestment of dividends and capital gains excluding sales charges.

*Morningstar proprietary ratings are subject to change every month. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. A four- or five-star rating does not necessarily imply that a fund achieved positive returns for the period. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted-average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Rating periods. Class A shares of the fund were rated against 261 and 545 U.S.-domestic Large Growth Funds over the 3- and 5-year periods, respectively. With respect to these Large Growth Funds, Class A shares of the Fund received Morningstar Ratings of four stars for both the 3- and 5-year periods. Ratings are for Class A shares only; other classes may have different performance characteristics.

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Smith Barney
Mutual Funds

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OPENED YOUR STATEMENT LATELY?
**RICHIE'S RECENT
 PERFORMANCE**
 MAY ENCOURAGE YOU.

	10-YEAR	5-YEAR	1-YEAR
Smith Barney Aggressive Growth Fund	14.71%	8.11%	-26.97%
Lipper Multi-Cap Growth Funds Average	6.57%	-5.00%	-27.35%

Average annual total returns, not including the effects of sales charges, for Class A shares as of March 31, 2003.

To learn more about the Smith Barney Aggressive Growth Fund and Richie Freeman's investment philosophy, contact your financial professional or call us at 1-800-451-2010 or visit www.smithbarneymutualfunds.com for a free prospectus. The prospectus contains more complete information, including risks, fees and expenses. Please read it carefully before you invest or send money.

MUTUAL FUNDS ARE LONG-TERM INVESTMENTS. THEREFORE, INVESTORS SHOULD CONSIDER THE COMPLETE PERFORMANCE HISTORY OF THE FUND WHEN MAKING AN INVESTMENT DECISION. PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

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Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Because of market volatility, returns may be higher or lower than current returns. Common stocks are subject to market fluctuation. The Fund invests a significant portion of its assets in small- and mid-cap companies which may be more volatile than an investment that focuses only on large-cap companies. Average annual total return assumes the reinvestment of income dividends and capital gains distributions at net asset value and the deduction of all fund expenses. All average annual returns above are as of March 31, 2003. Class A shares, including the effects of maximum (5.0%) sales charges, returned **(30.62%), 7.01% and 14.12%** for the one-, five- and ten-year periods, respectively. Performance for Class B and L shares will differ due to differences in sales charge structure and class expenses. Year-to-date (YTD) returns are cumulative figures and are not annualized and do not include the effects of sales charges. YTD return for the Fund's Class A shares, including the effects of maximum (5.0%) sales charges is **12.80%**. Performance for other share classes will vary. YTD returns are calculated from 1/01/03—5/31/03. Average annual returns are calculated among 403, 168, and 50 multi-cap growth funds tracked by Lipper over the one-year, five-year and ten-year periods, respectively, with reinvestment of dividends and capital gains excluding sales charges. YTD cumulative returns are calculated among 412 multi-cap growth funds tracked by Lipper, with reinvestment of dividends and capital gains excluding sales charges.

*Morningstar proprietary ratings are subject to change every month. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. A four or five star rating does not necessarily imply that a fund achieved positive returns for the period. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted-average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Rating metrics. Class A shares of the fund were rated against 876, 582, and 174 U.S.-domiciled Large Growth funds over the 3-, 5- and 10-year periods, respectively. With respect to these Large Growth funds, Class A shares of the Fund received Morningstar Ratings of 5 stars for the 3-, 5- and 10-year periods. Ratings are for Class A shares only; other classes may have different performance characteristics.

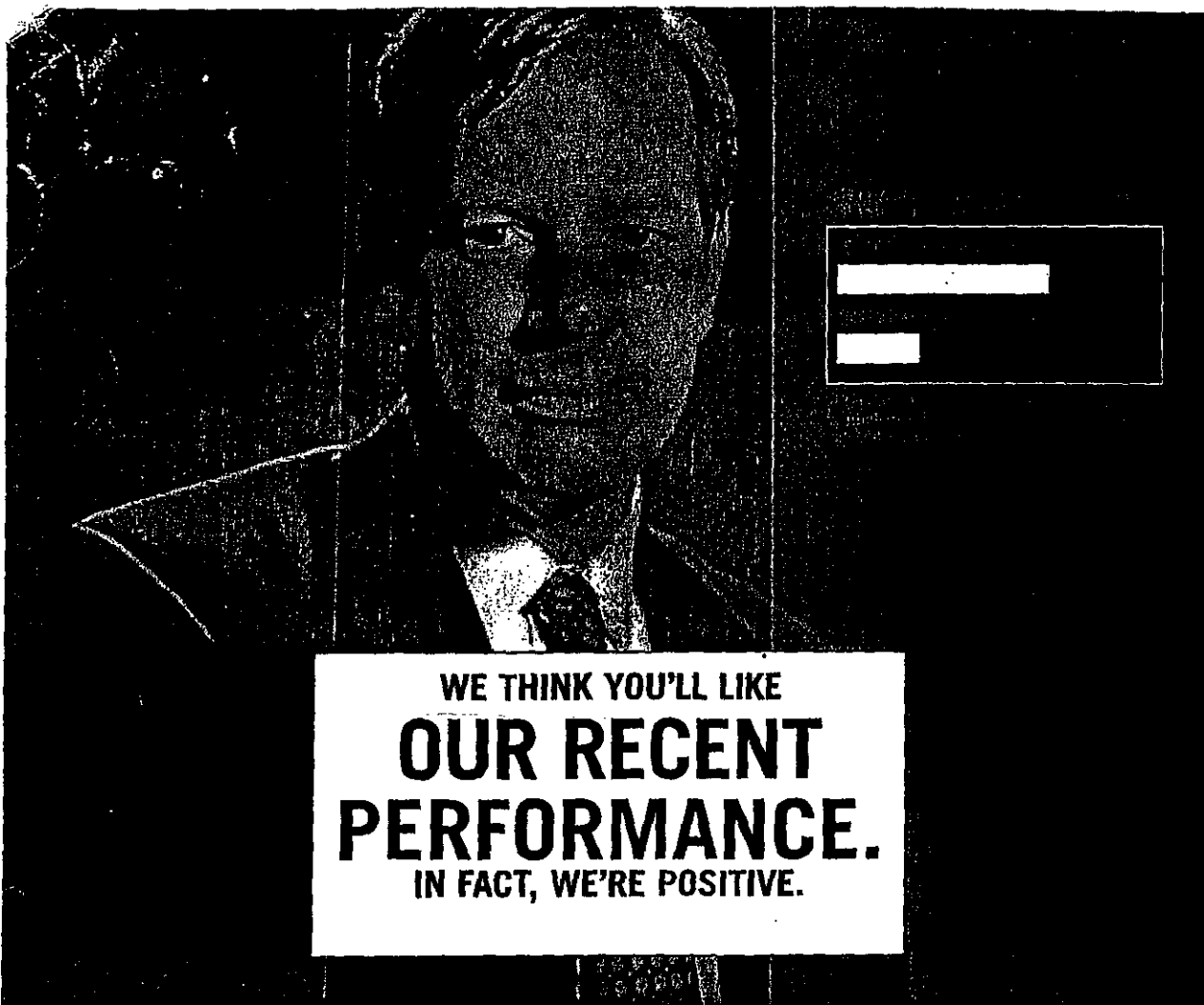
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SB Smith Barney
MF Mutual Funds

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WE THINK YOU'LL LIKE
**OUR RECENT
 PERFORMANCE.**
 IN FACT, WE'RE POSITIVE.

	10-YEAR	5-YEAR	1-YEAR
SB Capital and Income Fund	7.82%	-0.72%	-9.76%
Lipper Flexible Portfolio Funds Average	6.05%	-1.26%	-13.67%

Average annual total returns, not including the effects of sales charges, for Smith Barney Class A shares as of March 31, 2003.

To learn more about the SB Capital and Income Fund and Mark McAllister's investment philosophy, contact your financial professional or call us at 1-800-451-2010 or visit www.smithbarneymutualfunds.com for a free prospectus. The prospectus contains more complete information, including risks, fees and expenses. Please read it carefully before you invest or send money.

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Principal value and investment return will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. High-yield bonds are rated below investment grade and involve more risk than higher-rated securities. The fund may invest in derivatives, which can be liquid, and can have a potentially large impact on performance. The fund is subject to certain risks associated with overseas investing, including currency fluctuations and changes in political and economic conditions. Average annual total return assumes the reinvestment of income dividends and capital gains distributions at net asset value and the deduction of all fund expenses. All average annual returns above are as of March 31, 2003. Smith Barney Class A shares, including the effects of maximum (5.0%) sales charges, returned (14.26%), (1.73%) and 7.27% for the one-, five- and ten-year periods, respectively. Performance for Smith Barney Class B and L shares will differ due to differences in sales charge structure and class expenses. Year-to-date (YTD) returns are cumulative figures and are not annualized and do not include the effects of sales charges. YTD returns for the Fund's Smith Barney Class A shares, including the effects of maximum (5.0%) sales charges is 9.59%. Performance for other share classes will vary. YTD returns are calculated from 1/01/03-5/31/03. Average annual returns are calculated among 302, 162 and 42 flexible portfolio funds tracked by Lipper over the one-, five- and ten-year periods ended 3/31/03, respectively, with reinvestment of dividends and capital gains excluding sales charges. YTD cumulative returns are calculated among 513 flexible portfolio funds tracked by Lipper, with reinvestment of dividends and capital gains excluding sales charges.

Prior to April 11, 2003, the Fund was known as "Smith Barney Premium Total Return Fund."

Mark McAllister became co-portfolio manager of the Fund on May 15, 2002. He has been solely responsible for the day-to-day management of the Fund's portfolio since April 30, 2003.

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MI Mutual Funds
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HERSH COHEN
PORTFOLIO MANAGER

THINK POSITIVE... IT'S NOT HARD WHEN YOU LOOK AT HERSH AND SCOTT'S RECENT PERFORMANCE.

	10-YEAR	5-YEAR	1-YEAR
Smith Barney Appreciation Fund	8.31%	-0.11%	-18.70%
Lipper Large-Cap Core Funds Average	6.67%	-5.00%	-25.78%

Average annual total returns, not including the effects of sales charges, for Class A shares as of March 31, 2003.

To learn more about the Smith Barney Appreciation Fund and Hersh Cohen's and Scott Glasser's investment philosophy, contact your financial professional or call us at 1-800-451-2010 or visit www.smithbarneymutualfunds.com for a free prospectus. The prospectus contains more complete information, including risks, fees and expenses. Please read it carefully before you invest or send money.

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Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Because of market volatility, returns may be higher or lower than current returns. Consensus stocks are subject to market fluctuation. The fund may invest in small- and mid-cap companies that may involve a higher degree of risk and volatility than investments in large-cap companies. Average annual total return assumes the reinvestment of income dividends and capital gain distributions at net asset value and the deduction of all fund expenses. All average annual returns shown are as of March 31, 2003. Class A shares, including the effects of maximum (5.0%) sales charges, returned **(22.76%)**, **(1.13%)** and **7.76%** for the one-, five- and ten-year periods, respectively. Performance for Class B and L shares will differ due to differences in sales charge structure and class expenses. Year-to-date (YTD) returns are cumulative figures and are not annualized and do not include the effects of sales charges. YTD return for the Fund's Class A shares, including the effects of maximum (5.0%) sales charges is **3.92%**. Performance for other share classes will vary. YTD returns are calculated from 1/01/03-5/31/03. Average annual returns are calculated among 969, 512 and 167 large-cap core funds tracked by Lipper over the one-, five- and ten-year periods, respectively, with reinvestment of dividends and capital gains excluding sales charges. YTD cumulative returns are calculated among 1,079 large-cap core funds tracked by Lipper, with reinvestment of dividends and capital gains excluding sales charges.

*Morningstar proprietary ratings are subject to change every month. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. A four or five star rating does not necessarily imply that a fund achieved positive returns for the period. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 33% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is covered as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted-average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Rating metrics. Class A shares of the fund were rated against 1,028, 705, and 221 U.S.-domiciled Large Blend funds over the 3-, 5- and 10-year periods, respectively. With respect to these Large Blend funds, Class A shares of the Fund received Morningstar Ratings of 5, 4 and 4 stars for the 3-, 5- and 10-year periods, respectively. Ratings are for Class A shares only; other classes may have different performance characteristics.

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SB Smith Barney
M Mutual Funds

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